April 11, 2024

Nippon Shikizai, Inc.
Summary of Financial Results for the Fiscal Year Ended February 29, 2024
[Japanese Standard] (Consolidated)

Nippon Shikizai, Inc. has announced its consolidated financial results for the fiscal year ended February 29, 2024. Please refer to the contents of the report disclosed below.

Consolidated Financial Results

- **Net sales: 15,050 million yen (28.0% increase from the previous period)**
- **Operating income: 441 million yen (173.0% increase from the previous period)**
- **Ordinary income: 407 million yen (174.9% increase from the previous period)**
- **Net income attributable to owners of parent company: 398 million yen (61.6% increase from the previous period)**

Summary of Consolidated Operating Results

During the fiscal year ended February 29, 2024 (March 1, 2023 to February 29, 2024), the Japanese economy benefited as post-pandemic normalization made great strides, with COVID-19 infections subsiding. Overseas, recovery gathered momentum but uncertainty persisted on several fronts. With the entrenchment of post-pandemic modes of living, the impact of COVID-19 on daily life and the economy waned significantly. In economic trends, however, disparity among regions grew as China's economy struggled. Separately, the Russian invasion of Ukraine became protracted while tension in the Middle East persisted, heightening geopolitical risk that drove rising prices for energy and other resources as well as logistical delays and other headaches. These developments drove inflation and rising interest rates in Japan and worldwide, causing currency fluctuations, impacting economic activity and breeding lingering uncertainty.

The cosmetics industry, which is the domain of operations of Nippon Shikizai, Inc., enjoyed continuing improvement in demand, paced by makeup products, as the impact of COVID-19 faded. In Japan, personal consumption, and spending on makeup in particular, remained below pre-COVID-19 levels, as mask-wearing remained an engrained habit among many consumers. Even so, mask-wearing was on the decline and consumer mindset seemed much improved. Overseas as well, demand for cosmetics was seen to be on a recovery trend, with the impact of COVID-19 having already waned.

The Nippon Shikizai Group is enjoying a recovery and increase in demand from cosmetics manufacturers throughout Japan and around the world. As a result, the Group is steadily improving the operation rate of the increased production capacity it achieved through capital investments, such as the phase-3 expansion project at Tsukuba Factory. Uncertainties and challenges remained: To handle a drop in workload caused by labor shortages, the Group was obliged to increase outsourcing expenses, while inflation affected material costs and other expenses. Nonetheless, thanks to continuous efforts to restrain various costs to support and bolster profitability, the Group succeeded in appropriating an operating profit for the second consolidated fiscal year in a row.

Going forward, the business environment, including demand for cosmetics is expected to brighten but overall uncertainty will remain. Society is normalizing and transitioning to an endemic/post-pandemic stance, but these positive developments will continue to engender issues such as rising prices of energy and various goods, labor shortages and rising personnel costs. Meanwhile, geopolitical risk remains high from Russia's invasion of Ukraine and tensions in the Middle East. Against this background, the Group is striving to continue profitable operation and restore growth trends to pre-pandemic levels. To this end, the Group is resolutely implementing the various measures mooted in the Medium-Term Business Strategy Vision, which covers the period FY2022 to FY2026. Over the near term, the Nippon Shikizai Group will answer customer demand by responding growth in demand as the impact of the COVID-19 pandemic eases. Looking ahead to the medium-to-long term, the Group will redouble its efforts to achieve recovery and improvement in business results, leveraging its strengths in a continuously changing market environment by responding to social demands such as "clean beauty" in cosmetics and adherence to the SDGs.

With the results above as background, the operating results for the consolidated fiscal year under review were as follows.

In net sales, domestic and overseas demand for makeup products recovered amid the fading of the COVID-19 pandemic, causing orders for these products in Japan and overseas to bounce back. Yen depreciation also contributed. The Group's net sales rose 28.0% compared to the previous fiscal year to 15,050 million yen.

Earnings surged in the period under review. The phase-3 expansion project at Tsukuba Factory continued to increase various costs, while material, personnel and miscellaneous expenses were driven up by inflation. However, orders accepted increased, enabling the Group to improve the operation rate of its productive capital, even as it strove to restrain various costs. The Group recorded operating income of 441 million yen, up 173.0% from the previous fiscal year. Ordinary income nearly doubled 174.9% from the previous fiscal year to 407 million yen. Net income attributable to owners of parent company increased 61.6% over the previous fiscal year to 398 million yen, buoyed by a decrease in goodwill and fixed capital from consolidation of the Company's French subsidiary, Nippon Shikizai France S.A.S. (hereinafter "NS France"), and tax and other adjustments of 210 million yen from appropriation of deferred tax assets.

Segment Business Information by Region

(Japan)

The socioeconomic impact of the COVID-19 pandemic has waned significantly, and though it has not disappeared entirely, demand for cosmetics is staging a recovery. Orders from domestic and overseas cosmetics manufacturers recovered and grew. Net sales grew 18.1% from the previous fiscal year to 10,261 million yen. In earnings, although various costs continued to increase in connection with the phase-3 expansion project at Tsukuba Factory, and inflation raised material, personal and various other expenses, the Group strove to reduce a range of costs and steadily improve the operating rate of production equipment. Operating income improved 60.5% over the previous fiscal year to 220 million yen. Segment assets retreated 1.2% from the previous fiscal year to 13,550 million yen. Notes and accounts receivable–trade and inventory assets rose in tandem with sales, but tangible fixed assets declined due to depreciation and other factors, while investment and other assets fell as a result of factors such as valuation of shares in NS France.

(France)

Europe, where our subsidiaries Thépenier Pharma & Cosmetics S.A.S. (hereinafter, "Thépenier") and NS France are located, were impacted by the protraction of the Russian invasion of Ukraine and heightened tensions in the Middle East during the consolidated fiscal year under review (January 1 to December 31, 2023). However, the impact of COVID-19 had already subsided considerably, positively impacting orders accepted for pharmaceuticals and cosmetics. Depreciation of the Japanese yen also had an effect. Net sales rose 57.1% over the previous fiscal year to 4,955 million yen. In income terms, sales soared as increased orders enabled the Group to improve the operation rate of productive capital in which it had invested in recent years, even as costs associated with capital investment rose. In this way the Group overcame the impact of high prices for energy and other inputs arising from the Russian invasion of Ukraine and conditions in the Middle East. Operating income rose nearly quintupled, leaping 785.7% over the previous fiscal year to 222 million yen. Segment assets increased 24.0% over the previous fiscal year to 4,727 million yen. Key factors were a rise in notes and accounts receivable–trade and inventory assets in tandem with sales and an increase in tangible fixed assets from capital investment. In the France segment, decrease in goodwill and fixed capital related to NS France prompted appropriation of a special loss of 125 million yen.

Outlook

The Group expects the business environment to continue to improve in the coming fiscal year, though uncertainties remain. As society and the economy normalize amid the transition from a pandemic to an endemic stance, a gradual recovery and improvement in the economy is anticipated, despite regional disparities. On the other hand, protracted crises such as the Russian invasion of Ukraine and tension in the Middle East are expected to heighten geopolitical risk, while rising prices of resources, energy and various goods, swelling personnel expenses and fluctuating interest and exchange rates impact economic activity. These factors presage a lingering condition of uncertainty.

A similar qualified optimism applies to the cosmetics market. In Japan, the wearing of masks remains an ingrained habit among some members of the public, and personal consumption remains depressed relative to pre-pandemic conditions. Nonetheless, as mask use gradually decreases, consumer mindset brightens and the impact from COVID-19 wanes, demand for cosmetics is expected to stage a comeback. Overseas as well, the transition to an endemic condition is already under way and increased demand for cosmetics is anticipated. Moreover, the former pandemic continues to affect the level of cosmetics demand in Japan, as the wearing of masks becomes an ingrained habit in Japan and new modes of living, such as working at home, take root. For example, eye makeup that is unaffected by masks and lipsticks that do not leave marks on masks are proving popular. To recover business results and grow their operations, it is vital that cosmetics ODM manufacturers take resolute action by providing prescriptions that respond to changes in the needs of consumers and cosmetics manufacturers and developing new, value-added prescriptions.

Against this background, the Group drafted the Medium-Term Business Strategy Vision (FY2022–FY2026), with the aim of recovering from the negative impact on business results of the COVID-19 pandemic. Guided by this Vision, the Group aims to continue its recovery momentum toward further growth, with key strategies including strengthening and expansion of products with a strong competitive edge; vigorous pursuit of the “clean beauty” market; and transformation into a highly profitable constitution. The Group will vigorously pursue efforts on all of these fronts.

The Group’s forecast of consolidated business results for the upcoming fiscal year (fiscal year ending February 28, 2025) is positive overall. Under the conditions described above, the Group forecasts a gradual recovery and improvement in orders accepted. Full-year net sales are forecast to rise 12.7% over the previous fiscal year to 16,964 million yen. In earnings, as increases in orders accepted improve the operation rate of production equipment, inflation is reflected in unit prices and measures to restrain costs continue, the Group forecasts operating income of 606 million yen, ordinary income of 490 million yen and net income attributable to owners of parent company of 355 million yen.

Given uncertainty regarding the lingering impact of the COVID-19 pandemic, the degree of impact from the war between Russia and Ukraine and from Mideast tensions, economic trends in China and other countries and economic variables such as inflation, interest rates and exchange rates, the Group’s forecast of consolidated business results for the upcoming fiscal year is subject to change.

(%: change in full year from the previous year or in 2nd quarter (cumulative) from the same period previous year)

	2nd quarter (cumulative) (increase/decrease)	Full year (increase/decrease)
Net sales	8,683 million yen (Up 18.1%)	16,964 million yen (Up 12.7%)
Operating income	267 million yen (Down 6.6%)	606 million yen (Up 37.2%)
Ordinary income	210 million yen (Down 22.5%)	490 million yen (Up 20.2%)
Net income attributable to owners of parent company	127 million yen (Down 41.5%)	355 million yen (Down 10.7%)
Net income per share	60.62 yen	169.57 yen

Basic Policy on Distribution of Earnings and Dividends in the Period Under Review and Next Period

As it seeks to boost corporate value by improving capital efficiency, the Nippon Shikizai Group regards the return of earnings to shareholders, who are vital stakeholders, as one of its most important management issues. The Group’s basic policy on dividends is to maintain continuous and stable dividend payout. As such, dividends are distributed in response to growth in business results.

The Group understands that the medium-to-long-term return of earnings to shareholders requires distribution of continuous and stable dividends as well as support and increase of the share price through improvement of corporate value. Furthermore, the Group recognizes that achieving these aims requires stable growth, which must be accomplished by boosting profitability and recovering capital adequacy and financial stability, in the wake of the COVID-19 pandemic and its adverse effects on business results. The Group’s policy with respect to dividend amounts is to consider both earnings levels and internal reserves necessary to ensure capital adequacy.

With respect to the distribution of dividends at the end of the consolidated fiscal year, the Group intends to increase the year-end dividend from the previously forecast 10 yen per share to 20 yen per share. This is because, while the Group must prioritize replenishment of capital from internal reserves, net income attributable to owners of parent in the fiscal year under review increased over the previous fiscal year (fiscal year ended February 28, 2023). In the upcoming fiscal year (fiscal year ending February 28, 2025), despite the presence of factors causing lingering uncertainty, the Group plans to distribute a dividend of 20 yen per share. This is because the Group expects to earn the net income attributable to owners of parent described in the above forecast of consolidated business results.

[Appendix]

Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Thousands of yen)

	At February 28, 2023	At February 29, 2024
ASSETS		
Current Assets		
Cash and deposits	1,331,565	1,393,795
Notes and accounts receivable - trade	1,956,162	2,234,430
Electronically recorded monetary claims - operating	225,132	149,087
Merchandise and finished goods	894,370	1,136,929
Work in process	283,411	319,150
Raw materials and supplies	1,245,624	1,651,265
Other	226,057	251,695
Allowance for doubtful accounts	(2,161)	(2,220)
Total Current Assets	6,160,163	7,134,132
Non-current Assets		
Property, Plant and Equipment		
Buildings and structures	10,166,074	10,462,508
Accumulated depreciation	(5,345,124)	(5,748,109)
Buildings and structures, net	4,820,950	4,714,399
Machinery, equipment and vehicles	5,112,034	5,539,429
Accumulated depreciation	(3,588,267)	(4,036,564)
Machinery, equipment and vehicles, net	1,523,766	1,502,864
Tools, furniture and fixtures	1,222,720	1,343,505
Accumulated depreciation	(889,578)	(995,229)
Tools, furniture and fixtures, net	333,142	348,275
Land	2,140,853	2,027,748
Construction in progress	207,339	438,406
Total Property, Plant and Equipment	9,026,052	9,031,693
Intangible Assets	360,237	260,467
Investments and Other Assets		
Investment securities	357,375	293,661
Deferred tax assets	4,460	235,239
Other	152,140	145,712
Allowance for doubtful accounts	(11,410)	(13,837)
Total Investments and Other Assets	502,566	660,776
Total Non-current Assets	9,888,856	9,952,938
Total Assets	16,049,019	17,087,070

(Thousands of yen)

	At February 28, 2023	At February 29, 2024
LIABILITIES		
Current Liabilities		
Notes and accounts payable - trade	791,310	904,894
Electronically recorded obligations - operating	1,036,519	1,387,301
Short-term loans payable	2,494,927	2,913,451
Lease obligations	93,139	98,127
Accounts payable - other	512,074	905,149
Provision for bonuses	85,561	70,203
Other	329,315	531,648
Total Current Liabilities	5,342,849	6,810,777
Non-current Liabilities		
Long-term loans payable	7,041,034	6,147,558
Lease obligations	412,943	355,859
Provision for directors' retirement benefits	146,430	146,430
Net defined benefit liability	87,465	95,609
Other	6,839	3,908
Total Non-current Liabilities	7,694,713	6,749,365
Total Liabilities	13,037,562	13,560,143
NET ASSETS		
Shareholders' Equity		
Capital stock	100,000	100,000
Capital surplus	1,510,339	1,510,339
Retained earnings	1,146,283	1,544,397
Treasury shares	(3,918)	(3,983)
Total Shareholders' Equity	2,752,703	3,150,752
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	160,238	118,294
Foreign currency translation adjustment	98,515	257,880
Total Accumulated Other Comprehensive Income	258,753	376,175
Total Net Assets	3,011,457	3,526,927
Total Liabilities and Net Assets	16,049,019	17,087,070

(2) Consolidated Statement of Income

(Thousands of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Net Sales	11,760,414	15,050,063
Cost of Sales	10,373,346	13,034,123
Gross Profit	1,387,068	2,015,939
Selling, General and Administrative Expenses	1,225,257	1,574,198
Operating Income	161,810	441,741
Non-operating Income:		
Interest income	5	10
Dividend income	7,213	8,096
Foreign exchange gains	46,773	33,426
Subsidy income	23,935	30,901
Miscellaneous income	31,210	21,694
Total Non-operating Income	109,137	94,130
Non-operating Expenses:		
Interest expenses	108,212	128,033
Other	14,379	-
Total Non-operating Expenses	122,592	128,033
Ordinary Income	148,355	407,838
Extraordinary Income:		
Gain on sales of non-current assets	207	7,614
Gain on sales of investment securities	40,037	-
Total Extraordinary Income	40,244	7,614
Extraordinary Losses:		
Loss on retirement of non-current assets	304	3,468
Impairment loss	-	125,747
Total Extraordinary Losses	304	129,216
Income before Income Taxes	188,296	286,237
Income taxes - current	24,583	99,120
Income taxes - deferred	(82,582)	(210,996)
Total Income Taxes	(57,998)	(111,876)
Net Income	246,295	398,113
Net Income Attributable to Owners of Parent Company	246,295	398,113

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Net income	246,295	398,113
Other Comprehensive Income		
Valuation difference on available-for-sale securities	(42,269)	(41,943)
Foreign currency translation adjustment	102,695	159,364
Total Other Comprehensive Income	60,425	117,421
Comprehensive Income	306,720	515,535
(Breakdown)		
Comprehensive income attributable to owners of parent company	306,720	515,535
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statement of Changes in Equity

Fiscal year ended February 28, 2023

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	714,104	943,209	1,098,620	(3,857)	2,752,077
Cumulative effects of changes in accounting policies			(1,206)		(1,206)
Restated balance	714,104	943,209	1,097,414	(3,857)	2,750,871
Changes of items during period					
Capital reduction	(614,104)	614,104			-
Net income attributable to owners of parent company			246,295		246,295
Purchase of treasury shares				(61)	(61)
Change in scope of consolidation		(46,974)	(197,426)		(244,401)
Net changes of items other than shareholders' equity					
Total changes of items during period	(614,104)	567,129	48,868	(61)	(1,832)
Balance at end of current period	100,000	1,510,339	1,146,283	(3918)	2,752,703

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at beginning of current period	202,507	(4,180)	198,327	2,950,405
Cumulative effects of changes in accounting policies				(1,206)
Restated balance	202,507	(4,180)	198,327	2,949,199
Changes of items during period				
Capital reduction				-
Net income attributable to owners of parent company				246,295
Purchase of treasury shares				(61)
Change in scope of consolidation				(244,401)
Net changes of items other than shareholders' equity	(42,269)	102,695	60,425	60,425
Total changes of items during period	(42,269)	102,695	60,425	62,258
Balance at end of current period	160,238	98,515	258,753	3,011,457

Fiscal year ended February 29, 2024

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	100,000	1,510,339	1,146,283	(3,918)	2,752,703
Changes of items during period					
Net income attributable to owners of parent company			398,113		398,113
Purchase of treasury shares				(64)	(64)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	398,113	(64)	398,048
Balance at end of current period	100,000	1,510,339	1,544,397	(3,983)	3,150,752

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at beginning of current period	160,238	98,515	258,753	3,011,457
Changes of items during period				
Net income attributable to owners of parent company				398,113
Purchase of treasury shares				(64)
Net changes of items other than shareholders' equity	(41,943)	159,364	117,421	117,421
Total changes of items during period	(41,943)	159,364	117,421	515,470
Balance at end of current period	118,294	257,880	376,175	3,526,927

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Cash Flows from Operating Activities:		
Income before income taxes	188,296	286,237
Depreciation	796,845	855,498
Amortization of goodwill	17,078	18,808
Impairment loss	-	125,747
Increase (decrease) in provision for bonuses	50,596	(15,358)
Increase (decrease) in net defined benefit liability	(41,211)	(1,486)
Increase (decrease) in allowance for doubtful accounts	12,654	1,800
Interest and dividend income	(7,218)	(8,107)
Interest expenses	108,212	128,033
Loss (gain) on sales of investment securities	(40,037)	-
Loss (gain) on sales of non-current assets	(207)	(7,614)
Loss on retirement of non-current assets	304	3,468
Decrease (increase) in notes and accounts receivable - trade	(274,472)	(126,910)
Decrease (increase) in inventories	(576,254)	(598,268)
Increase (decrease) in notes and accounts payable - trade	697,186	429,695
Increase (decrease) in accounts payable - other	11,430	278,371
Increase (decrease) in accrued consumption taxes	(148,524)	58,008
Other	(58,467)	(19,808)
Subtotal	736,211	1,408,116
Interest and dividend income received	7,218	8,107
Interest expenses paid	(106,043)	(128,554)
Income taxes (paid) refund	(21,988)	(36,570)
Net Cash Provided by Operating Activities	615,397	1,251,099

(Thousands of yen)

	Fiscal year ended February 28, 2022	Fiscal year ended February 28, 2023
Cash Flows from Investing Activities:		
Payments into time deposits	(196,000)	-
Proceeds from withdrawal of time deposits	175,000	103,000
Purchase of property, plant and equipment	(273,807)	(659,309)
Proceeds from sales of property, plant and equipment	-	142,580
Purchase of intangible assets	(9,450)	(24,309)
Purchase of investment securities	(258)	(322)
Proceeds from sales of investment securities	51,709	-
Net Cash Used in Investing Activities	(252,807)	(438,361)
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term loans payable	242,252	417,060
Proceeds from long-term loans payable	1,455,611	1,257,332
Repayments of long-term loans payable	(2,014,927)	(2,274,145)
Repayments of lease obligations	(95,910)	(97,677)
Cash dividends paid	(73)	-
Other	(66)	(64)
Net Cash Used in Financing Activities	(413,114)	(697,496)
Effect of Exchange Rate Change on Cash and Cash Equivalents	27,015	32,035
Net Increase (Decrease) in Cash and Cash Equivalents	(23,508)	147,278
Cash and Cash Equivalents at Beginning of Period	1,222,888	1,228,503
Increase (Decrease) in Cash and Cash Equivalents Resulting from Change in Scope of Consolidation	29,122	-
Cash and Cash Equivalents at End of Period	1,228,503	1,375,781

(5) Segment Information

Performance by Business Segment

Year Ended February 29, 2024 (March 1, 2023 to February 29, 2024)

(Thousands of yen)

	Reporting Segment			Adjustment Amount (Notes 1, 2)	Consolidated Financial Statements Amount (Note 3)
	Japan	France	Total		
Sales					
In Japan	9,298,451	32,600	9,331,052	(873)	9,330,178
Overseas	962,838	4,922,679	5,885,517	(165,633)	5,719,884
Revenue from contracts with customers	10,261,290	4,955,279	15,216,570	(166,507)	15,050,063
Sales to outside customers	10,095,657	4,954,405	15,050,063	-	15,050,063
Internal sales and transfers between segments	165,633	873	166,507	(166,507)	-
Total	10,261,290	4,955,279	15,216,570	(166,507)	15,050,063
Segment income	220,676	222,299	442,975	(1,234)	441,741
Segment assets	13,550,478	4,727,547	18,278,026	(1,190,955)	17,087,070
Other items					
Depreciation	541,957	313,541	855,498	-	855,498
Impairment loss	-	125,747	125,747	-	125,747
Increase of property, plant and equipment and intangible assets	390,672	423,966	814,638	-	814,638

Notes: 1. The adjustment amount of negative 1,234 thousand yen in segment income is an elimination of transactions between segments.
2. The adjustment amount of negative 1,190,955 thousand yen in segment assets is a reflection of consolidated adjustment between segments.
3. The segment income is adjusted with operating income on the consolidated financial statements.

(Major Subsequent Events)

Not applicable.